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PREPARATIONS FOR THE SPECIAL SESSION OF THE GENERAL ASSEMBLY FOR THE PURPOSE OF AN OVERALL REVIEW AND APPRAISAL OF THE IMPLEMENTATION OF AGENDA 21

Note verbale dated 18 February 1997 from the Permanent Representative of the Netherlands to the United Nations addressed to the Secretary-General

The Permanent Representative of the Kingdom of the Netherlands to the United Nations has the honour to transmit the Chairman's Summary of the Fourth Expert Group Meeting on Financial Issues of Agenda 21** held at the Economic Commission for Latin America and the Caribbean (ECLAC), Santiago, Chile, 8-10 January 1997, under the co-sponsorship of the Government of Chile and the Kingdom of the Netherlands in cooperation with ECLAC, the Inter-American Development Bank, and the Department for Policy Coordination and Sustainable Development of the United Nations Secretariat.

This was the fourth in a series of expert group meetings which were held in Kuala Lumpur, 2-4 February 1994, Glen Cove, New York, United States of America, 15-17 February 1995, and Manila, 6-8 February 1996. The purpose was to discuss current financing mechanisms for implementing Agenda 21 and to make recommendations for action to be submitted to the inter-sessional Ad Hoc Working Group of the Commission, to be convened 24 February-7 March 1997, and to the Commission itself at its fifth session to be held 7-25 April 1997.

It would be greatly appreciated if arrangements could be made to circulate the attached Chairman's Summary as an official document of the Commission on Sustainable Development at its fifth session under an appropriate agenda item.

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* To be issued as E/CN.17/1997/1.

** The document is circulated in the language of submission only.

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FOURTH EXPERT GROUP MEETING ON FINANCIAL ISSUES OF AGENDA 21
FINANCE FOR SUSTAINABLE DEVELOPMENT: THE ROAD AHEAD

Santiago, Chile • 8-10 January 1997

Organized by:
United Nations Department for Policy Coordination and Sustainable Development (UN/DPCSD), United Nations Economic Commission for Latin America and the Caribbean (UN/ECLAC), and Inter-American Development Bank (IDB).
Sponsored by Governments of The Netherlands and Chile.

CHAIRMAN'S SUMMARY

Tan Sri Dato Dr. Lin See-Yan
Executive Chairman, Pacific Bank, Malaysia

OVERVIEW

1. The Fourth Expert Group Meeting on Financial Issues of Agenda 21, sponsored by the Governments of The Netherlands and Chile and organized by United Nations Department for Policy Coordination and Sustainable Development (UN/DPCSD), United Nations Economic Commission for Latin America and the Caribbean (UN/ECLAC), and the Inter-American Development Bank (IDB), was held at UN/ECLAC Headquarters in Santiago, Chile, on January 8-10, 1996. The goals of the Meeting were: (i) to assess progress in the mobilization of financial resources for sustainable development since the 1992 United Nations Conference on Environment and Development, held in Rio de Janeiro, Brazil; (ii) to provide a state-of-the-art review and analysis of unresolved issues related to traditional and innovative international and domestic financial mechanisms; and (iii) in these and other ways, to generate information and recommendations that will assist the United Nations Commission on Sustainable Development (CSD) in preparing for the 1997 Special Session of the United Nations General Assembly. The Special Session aims at revitalizing and energizing the global commitment to sustainable development and defining priorities for the post-1997 period.

2. More than 70 international experts in finance and sustainable development from international organizations, governments, nongovernmental organizations (NGOs), universities, and the private sector attended the Meeting. They came from both developing and developed countries and participated in their personal capacities, not as official representatives of their organizations. As on previous occasions, Dr. Lin See-Yan of Malaysia, the chairman of the CSD Ad Hoc Inter-sessional Working Group on Finance, chaired the sessions. The agenda of the Meeting and the list of participants can be found in annexes I and II to this Summary.

3. The experts took note of the conclusions and recommendations of reports from previous meetings and confirmed the continuing relevance of those conclusions and recommendations in ongoing discussions about financing sustainable development. They reaffirmed the notion that

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sustainable development has economic, social, and environmental dimensions; it is not simply a matter of environmental protection. Tradeoffs among objectives related to the different dimensions are inevitable.

4. Addressing such tradeoffs remains a national matter, best served by decision-making processes that involve all relevant stakeholders. The creation of sustainable development strategies is one way of doing this and thereby ensuring that financial and other resources are directed toward the highest priority national objectives. While recognizing the importance of issues and actions at the national level, the experts emphasized that sustainable development has many global dimensions, which require concerted and coordinated actions by nations and the provision of international financial transfers, especially from developed to developing countries.

5. The experts also reaffirmed that financial resources are essential for sustainable development but are not, on their own, sufficient for achieving it. In the absence of appropriate policies, consumer and producer behaviour will not shift toward more sustainable patterns, and the financing gap will remain unnecessarily large. Implementation of appropriate policies holds the promise of not only mobilizing additional financial resources, but also of reducing the need for such resources by, for example, minimizing the amount of environmental degradation requiring remedial action and minimizing the costs to consumers and producers of complying with environmental regulations (cost-effectiveness). Many of these policies were discussed at the Meeting and are described in this report.

6. This report does not attempt to reflect all the views and suggestions made at the Meeting, nor does it represent a negotiated text. Nevertheless, it does reflect the general thrust of the discussions. It covers discussions related to the following topics:

(i) Trends in finance for sustainable development since Rio;
(ii) Developing policies for improved access to external finance;
(iii) Domestic resource mobilization policies; and
(iv) Innovative international financial mechanisms.

7. A final section summarizes some broad conclusions for future activities emerging from the Meeting.

I. Trends in finance for sustainable development since Rio

8. Three major trends in finance for sustainable development have occurred since Rio. First, and qualitatively, interest and activity in developing innovative domestic and international financial mechanisms, especially ones based on policy reforms, have risen. For example, a number of countries have reduced environmentally damaging subsidies and begun experimenting with environmental charges, user fees, and emissions-trading programmes. As discussed below, such mechanisms have the potential to generate a substantial portion of the domestic resources called for by Agenda 21. In the international arena, private companies and governments in several countries have initiated pilot joint implementation activities and signed biodiversity

prospecting agreements. Given that developing countries possess low-cost opportunities to sequester carbon and are rich in biodiversity, such international mechanisms could potentially transfer substantial financial resources, as well as technology, from developed to developing countries.

9. Second, and quantitatively, both official development assistance (ODA) and domestic resource mobilization have fallen far short of the commitments made at Rio. Official development assistance as a percentage of gross national product (GNP) in countries of the Organisation for Economic Co-operation and Development (OECD) as a whole has in fact declined, from 0.34 percent in 1992 to only 0.27 percent in 1995. Funding for the Global Environment Facility (GEF) and the Multilateral Fund of the Montreal Protocol has expanded, but not as greatly as many had hoped. Domestically, many developing countries have increased their investments in the social and environmental sectors, in several cases through the establishment of off-budget environmental funds as well as by more traditional budgetary allocations. These increases have typically been small, however. Assessing trends in domestic resource mobilization for sustainable development is complicated by conceptual problems related to defining and identifying sustainable development expenditures and by the lack of cross-country data on public- and private-sector expenditures disaggregated by social and environmental activities. For this reason, it is impossible to be precise about the amount of the shortfall relative to the $500 billion annual target given in Agenda 21. Despite the disappointing achievements on ODA and the need to make further progress on domestic resource mobilization, one should not conclude that the impact of Rio has been insignificant. It is likely that achievements would have been less had Rio not occurred.

10. Third, and more positively, private flows of financial resources from developed to developing countries have expanded enormously. Foreign private capital has become the dominant source of capital for many developing countries, especially those in Asia and increasingly those in Latin America. Ten years ago, private flows represented just a third of total capital flows to developing countries. According to World Bank estimates, they now represent more than 80 per cent. In 1996, estimated aggregate net private flows to developing countries totalled more than $230 billion. Although private flows will fluctuate over time and vary across countries, they should continue growing, due to continued globalization of production, trade liberalization, and financial integration. Developing countries that are currently receiving substantial private flows face the challenge of harnessing those flows to promote sustainable development and not simply short-term, unsustainable economic growth. Developing countries that hope to join this group face the challenge of creating economic and political environments that are attractive to foreign private investors.

II. Developing policies for improved access to external finance

A. Official development assistance

11. Most donor countries that accepted the United Nations' ODA target of 0.7 percent of GNP have not achieved it. There are several reasons for that, most of which are likely to persist in the immediate future. In donor countries, the political commitment to aid is being challenged by chronic budgetary pressures, the end of Cold War rationales for aid, the perception of aid dependence among the poorest countries, a decreasing need for aid among middle-income countries, and skepticism about the historical effectiveness of aid in promoting development and reducing poverty. At the same time, the paradigm shift within development circles from development being equated to growth and led by public-sector planning efforts, toward a more complex, multidimensional concept of development being people-centred, participatory, and market-driven, has led to uncertainty about the most appropriate role of aid. Aid remains an essential ingredient for sustainable development in developing countries, but there is a crisis of confidence in its utility, especially in countries that are heavily aid-dependent.

12. Three strategies can help restore donor support for aid programmes and reverse the decline in ODA relative to donor GNP. These three strategies are consistent with the paradigm shift in development thinking and point, encouragingly, toward a constructive and cooperative approach to aid:

- First, both donors and recipients need to reassert the primacy of the sustainable development goals of aid over short-term commercial and political motivations. This needs to be supported by greater transparency with regard to the objectives of aid programmes and the consistency of actual allocations and end uses with those objectives. Transparent objectives and allocations can help reduce donors' use of tied aid, recipients' use of aid for short-term political and economic gains, and temptations to divert aid to private pockets. Evidence that aid programmes are successfully promoting sustainable development goals, especially in alleviating poverty, provides the best case for renewing and strengthening political support for aid.

- Second, recipients need to maintain progress toward implementing sound economic, social, and environmental policies. The contribution of aid to sustainable development is greatest when it occurs in the context of a stable and open macroeconomic environment with competitive productive sectors and effective policies and programmes to alleviate poverty, provide education and health care, and protect the environmental resource base. Evidence indicates that aid in a good policy environment does work. Donors should be willing to provide concessional support to eligible recipients who have made a credible commitment to creating such a policy environment.

- Third, donors and recipients need to improve aid coordination to reduce the risk of programme duplication and programmes working at cross-purposes. The best mechanism for coordination is a clear, recipient-driven strategy for sustainable development. National and sectoral sustainable development strategies can serve as the basis for designing investment

programmes using both domestic and international financial resources. Although they face difficulties in disentangling the interrelated effects of aid flows, systems such as the environmental marker system in the annex to the 1996 report of the OECD Development Assistance Committee (DAC) will help donors and recipients determine the degree to which aid is indeed contributing to sustainable development.

13. To be fully effective, aid efforts must recognize the changes in international national finance. Wherever appropriate, aid should be used to leverage greater foreign and domestic private investments consistent with sustainable development, especially in poverty alleviation. Aid can play a strong role in catalyzing private investment in countries that are not currently receiving significant private flows. Aid recipients that are already receiving significant private flows need to consider ways to use aid to improve the contribution of private flows to sustainable development.

B. Debt

14. Heavy debt burdens have been a major hindrance to sustainable development in many developing countries. Although the debt situation of middle-income countries has, on the whole, improved significantly, with many of those countries having reentered international capital markets, many heavily indebted poor countries (HIPCs) continue to face heavy external debt burdens, despite a decade of international efforts to address the debt problem. The joint World Bank/IMF HIPC Initiative, which was approved in September 1996, aims at reducing the debt burden of HIPCs to sustainable levels and at exiting those countries from the rescheduling process within six years. It is an innovative approach in that it addresses external debt in a comprehensive way and involves all creditors.

15. Effective and flexible implementation of the Initiative promises to reduce debt as an impediment to sustainable development in participating countries and to enable those countries to focus on the removal of remaining impediments. The Initiative is not, however, a panacea for all the economic, let alone developmental problems facing HIPCs. Although it involves strong programmes of adjustment and reform, countries will need to adopt, implement, and sustain additional reforms to get on and stay on a sustainable development track. It may not eliminate all the underlying conditions that have resulted in unsustainable levels of debt, nor the need for continued flows of concessional finance to eligible countries after their debt burdens have been reduced to more sustainable levels.

C. Foreign private capital flows

16. Foreign private capital flows to developing countries have not only grown rapidly since Rio but shifted from commercial lending toward foreign direct investment (FDI) and portfolio investment. Foreign direct investment is now the largest single source of private flows to developing countries, reaching nearly $100 billion in 1996 according to World Bank estimates. Portfolio investment was estimated to be nearly half as large. Although FDI remains heavily concentrated in a small number of countries (80 per cent of all FDI goes to twelve countries), the number is growing. Foreign-direct-investment flows between developing countries are also growing.

17. The net impacts of FDI and portfolio investment upon sustainable development are difficult to determine. Relevant data are difficult to come by, and quantitative models relating FDI and portfolio investment to social and environmental impacts are difficult to develop. In most cases, it appears that FDI has strong positive effects on host country economies. It provides risk capital that can contribute to economic growth, employment, and poverty alleviation, and it can also create positive externalities in the form of increased domestic competition and international competitiveness, improved management skills, increased market access, and a broader, deeper and potentially cleaner set of production technologies.

18. Although country experience does not indicate that environmental regulation deters FDI, or that transnational corporations are less environmentally responsible than domestic firms, FDI that is made in the absence of effective environmental policy regimes can, like any type of investment, result in the creation of pollution problems and other forms of environmental degradation. This is a particular risk in countries experiencing large FDI flows that overwhelm the regulatory capacity of environmental authorities. Similar concerns can arise in regard to impacts on social equity.

19. Host country governments can undertake a number of policy actions to raise and improve the contribution of foreign private capital flows to sustainable development. Foreign investors are primarily interested in the overall economic and business environment in host countries. The key determinants of foreign private flows are stable macroeconomic policies, transparent and fair laws and public administration, open trade and investment policies, and adequate infrastructure and human resources. Actions to create an environment with these characteristics will stimulate higher levels of domestic investment as well.

20. To minimize potential negative impacts of foreign investment on sustainable development, host country governments need to strengthen social and environmental policies and programmes, especially in alleviating poverty. Although some foreign investors may act out of enlightened self-interest to minimize the environmental impacts of their activities and to ensure the welfare of their workforces and neighbouring communities, this is no substitute for effective national social and environmental policies and regulations. Home-country governments might consider making risk guarantees for FDI conditional on sound environmental management by investors.

21. In cooperation with national authorities, international organizations should support the development of better information on the likely impacts of foreign private flows upon sustainability. International organizations, such as the World Bank, should also continue their efforts to assist national governments with the development and implementation of "green" accounting methods, which provide essential information on the degree to which public and private investments offset the depletion and degradation of natural resources and enhance human capital.

III. Domestic resource mobilization policies

22. As in previous Meetings, the experts emphasized that the governments of both developed and developing countries have a wide range of options for mobilizing domestic financial resources. These options include, *inter alia*:

(i) actions to raise additional fiscal resources, such as

- reforming present tax systems;
- levying appropriate levels of user charges and fees; and
- imposing environmental taxes;

(ii) actions to mobilize financial resources through public expenditure reforms, such as

- curtailing unproductive expenditures;
- reducing subsidies inconsistent with sustainable development; and
- reducing military expenditures;

and (iii) actions to redirect financial resources through other reforms, such as

- macroeconomic reforms; and
- structural reforms.

23. One study presented at the Meeting estimated that, under conservative assumptions, the actions in categories (i) and (ii) could in the long run generate more than $1 trillion per year on a global basis, with about a quarter of the total being generated in developing countries. These findings are consistent with rougher estimates presented at previous meetings. The study was unable to quantify the amounts that might be generated by the actions in category (iii), but it suggested that they would be very large, due to static and dynamic efficiency effects that increase the pool of domestic savings.

24. Several of the options listed above, such as reducing subsidies that are inconsistent with sustainable development and expanding the use of user charges and environmental taxes, are attractive because they not only generate financial resources but also shift consumer and producer behaviour toward more sustainable patterns. They achieve the latter objective by causing the prices of goods to reflect more of the social and environmental costs of production and consumption (full-cost pricing). This raises economic efficiency in the broad, social welfare sense and puts market forces in line with sustainable development.

25. The experts emphasized that resource mobilization efforts must be accompanied by actions on the expenditure side to ensure that available funds are used effectively and directed toward the activities that make the greatest contribution to sustainable development, in particular poverty alleviation. In this regard, a key option is the formulation of national sustainable development strategies through the joint effort of government, the business community and civil society.

A. Subsidies

26. Historically, governments in both OECD and non-OECD countries have introduced a wide range of direct and indirect subsidies, including cash transfers, tax exemptions, below-cost pricing of capital and natural resources, and price controls, in an effort to stimulate economic growth and exports, to support particular industries, to maintain or create jobs, and to improve the welfare of the poor. Subsidies are expensive: global estimates of their magnitude range from $0.5 to 1 trillion per year, most of which occurs in OECD countries (although the ratio of subsidies to GNP is highest in non-OECD countries).

27. With some exceptions, studies have found that subsidies, especially ones on inputs (e.g., energy, water, pesticides and fertilizer), are usually inefficient means of achieving their stated ends. Except in cases of market failure, subsidies tend to distort economic incentives, channelling investments to less-profitable activities and reducing social welfare. They tend to be regressive, working against the poor whom they were intended to benefit, and to promote depletion of natural resources (e.g., water, forests and fisheries) and overuse of polluting inputs (fossil fuels, fertilizers, etc.). In many cases, sectoral subsidies have undermined competitiveness by distorting resource allocation in the economy as a whole and by promoting the unsustainable use of natural resources.

28. Once created, many subsidies are politically difficult to remove, because their benefits are usually concentrated on well-defined groups while their costs are widely diffused among producers in non-subsidized sectors and consumers. Nevertheless, budgetary pressures, economic crises, and efficiency considerations have led many countries to begin reducing subsidies. China and Russia have made significant progress in reducing energy subsidies, and a number of Asian and Latin American countries have reduced agricultural subsidies and raised fees on the use of natural resources. Several developed countries (e.g., New Zealand, the Netherlands, and the United States) have also reduced agricultural subsidies, at least relative to gross domestic product (GDP) (and in some cases in absolute terms), through both unilateral domestic actions and multilateral trade negotiations. Despite this progress, the scope for additional action by developed and developing countries to reduce subsidies remains large.

29. These considerations suggest that governments should:

- minimize the creation of new subsidies;

- consider modifying budgetary procedures and reports to make the magnitude of subsidies, including indirect ones such as tax exemptions and below-cost natural resource charges, more transparent;

- increase understanding and awareness of the impacts of existing subsidies by sponsoring and disseminating the results of studies that measure their economic, social, and environmental costs and benefits and identify those who bear their costs and those who reap their benefits;

- take a comprehensive approach to the reduction of subsidies inconsistent with sustainable development by coordinating subsidy reductions with the privatization of state-owned enterprises, market liberalization, and the implementation of environmental and social policies to offset potential negative spillover effects (e.g., improved forestry policies may be necessary to prevent reductions in kerosene subsidies from causing increased deforestation); and

- consider initiating international consultations at the appropriate level (e.g., regional or subregional; not necessarily global) to determine whether coordinated subsidy reductions across countries are needed to minimize perceived impacts of such reductions on international competitiveness.

30. These measures should contribute toward creating the political will necessary to overcome the vested interests that typically block subsidy reform efforts.

B. Economic instruments for environmental management

31. Economists have long advocated the use of economic instruments, which include charges on pollution and polluting inputs, tradable emission permits, and deposit-refund schemes. In theory, these instruments can achieve environmental quality goals at a lower cost than traditional command and control regulations, which typically apply uniform environmental standards across polluters and mandate the use of costly technology. Various empirical studies have estimated that greater application of economic instruments might enable developing countries to reduce the costs of achieving some pollution control objectives substantially, in some cases by as much as 60-90 per cent. While these are rough estimates, they are consistent with those for developed countries.

32. There is now considerable experience in developing countries and economies in transition as well as in developed countries, with the application of these instruments. This experience confirms that these instruments can improve cost-effectiveness relative to conventional regulations, but it has also highlighted the need for strong institutions in the environmental sector, the importance of avoiding bureaucratic restrictions that reduce the effectiveness of economic instruments, and frequent complementarities between conventional regulatory approaches and economic instruments. A recent comparative study of the use of economic instruments in Latin America has underscored the need to take institutional constraints seriously, and to pilot-test instruments in order to "learn by doing" before implementing them on a national level.

33. The major barriers to expanded use of economic instruments include policy makers' lack of familiarity with them, the challenge of adapting instruments to serve domestic objectives within the constraints of administrative capacity and economic development, the new skills and information required of both government and private parties involved in implementation, and the management of distributional issues when the costs of environmental protection shift more directly onto polluters. Several actions may be helpful in overcoming these barriers:

- Governments and international organizations should expand their efforts to: (i) collect and share information on the use of economic instruments, especially practical lessons on building

political support for economic instruments, tailoring instruments to institutional constraints, and minimizing the administrative costs of monitoring and enforcement, and (ii) introduce pilot schemes for economic instruments, with the intention of identifying appropriate opportunities for implementing them at a broader level and overcoming factors that might diminish their effectiveness.

- When designing economic instruments, regulatory agencies should consult with pertinent national and local government agencies, businesses, and civic groups, both to generate political support for the instruments and to ensure that they work effectively in practice.

- When introducing economic instruments that raise the costs of economic activities for households and small and medium-size enterprises (SMEs), governments should consider gradual phase-ins, public education programmes, and targeted technical assistance as strategies to reduce negative distributional impacts.

C. Private sector initiatives

34. In the past five years, many large domestic firms and transnational corporations have significantly expanded their environmental management capacity. Some have formed national and international business groups such as Business Councils for Sustainable Development, which promote environmentally and socially responsible management and investment. These groups, as well as international standard setting organizations such as the International Standards Organization (ISO), have established environmental standards. Business groups and NGOs have also introduced ecolabelling schemes, which enable consumers to make purchasing decisions that are more fully informed about the environmental characteristics of production processes and provide a potential market advantage to producers that satisfy specified criteria.

35. A number of private investment funds have also begun offering individual and institutional investors the opportunity to invest in companies that have been selected not only for their financial performance, but also for their performance according to environmental and social indicators. "Green" investment funds enable investors to bring their investment decisions in line with their environmental preferences. In so doing, they monetize investors' willingness to pay for environmental protection and channel funds to companies that are more environmentally responsible.

36. A shortcoming of "green" funds and other private-sector initiatives, however, is that they often include only minimal involvement by SMEs. Small and medium-size enterprises frequently lack the scale economies, technologies and human and financial resources to invest in environmental and social improvements. They are further discouraged from taking environmental and social responsibilities seriously due to insufficient oversight from regulatory agencies. In an effort to improve the environmental performance of SMEs that are their suppliers and distributors, some large firms in both developed and developing countries have begun furnishing technical and financial assistance and linking continued business relationships to demonstrable evidence of improved performance.

37. To support these and other voluntary private-sector initiatives, governments should:

- create a competitive business environment consistent with sustainable development by implementing appropriate and stable economic, social, and environmental policies and regulations, and allocate adequate human and material resources for monitoring and enforcing these policies and regulations and increasing their transparency to businesses;

- consider the use of public procurement policies to create incentives for private-sector suppliers to improve their environmental and social performance;

- consider ways of increasing the availability and transparency of information about the environmental and social performance of firms to the public and the business community (for example, Thailand has approved a proposal making disclosure of environmental performance a requirement for listing on its national stock exchange, and the United States publishes a Toxic Release Inventory that ranks firms according to level of release);

- institute awards programmes that publicly recognize efforts by individual firms and business groups to improve their environmental and social performance.

IV. Promoting innovative international financial mechanisms for sustainable development

38. The dominant approach for financing global environmental protection has been financial transfers of voluntary contributions through intergovernmental mechanisms such as the Global Environment Facility and the Montreal Protocol Multilateral Fund. Conservation trust funds organized by international, governmental, and nongovernmental organizations, and financed similarly by (largely) voluntary sources, have also become increasingly important. Although these direct-transfer mechanisms will continue to play an essential role in financing sustainable development, the voluntary basis of their funding reduces their reliability and, unless they are structured as endowment funds, their sustainability. Moreover, their contribution relative to the magnitude of international transfers called for by Agenda 21 remains small and largely limited to the environmental dimension of sustainable development.

39. In this regard, various individuals and organizations have recently proposed implementing some limited form of international taxation as a means of ensuring significant and automatic financing of international transfers from developed to developing countries to support sustainable development. The international taxes receiving the greatest attention have been a tax on foreign exchange transactions (the "Tobin tax"), a tax on international air transport, and a tax on carbon. Each tax has several variants, representing varying degrees of full-cost pricing and having varying implications for economic efficiency. Each one also raises difficult political issues, the most obvious and most serious of which is national governments' reluctance to delegate the sovereign right of taxation.

40. Studies suggest that an international tax is more likely to be economically justified and politically acceptable if it meets the following criteria:

(i) it is introduced as a voluntary scheme;

(ii) it is legislated and collected nationally, with its rate and administration nationally determined;

(iii) its base is large, permitting its rate to be very low without preventing it from generating significant amounts of revenue;

(iv) it is levied on an activity that generates negative externalities that are both obvious and global;

(v) most of its revenue is retained by national governments, with the amount retained being nationally determined;

(vi) remaining revenue is allocated in an automatic and transparent fashion to an international financial transfer mechanism, ideally one that already exists and has proven its reliability;

(vii) that revenue is allocated according to clear and transparent criteria to activities closely linked to reducing the negative externalities generated by the taxed activities, thus giving the tax aspects of a user fee; and

(viii) allocations are limited to countries participating in the scheme.

41. The carbon tax would appear to match up best against these criteria, especially (iii) and (iv).

42. It is unlikely that the time for international taxes has come. They do, however, have a conceptual appeal. Moreover, they may eventually be an inevitable consequence of regional integration, globalization of the world economy, and rising concern about global environmental degradation. For these reasons, the CSD should request appropriate organizations (for example, the World Bank and the IMF) to conduct forward-looking studies of the economic rationale and political feasibility of some form of international carbon tax.

V. Future work on finance

43. In support of the above-mentioned recommendations, the CSD should continue promoting global and regional expert meetings on cross-sectional and sectoral financial issues of Agenda 21. In this context, the CSD should also continue to support the exchange of information on financial mechanisms among interested parties through meetings, publications and the development of electronic databases. The CSD should make a special effort to involve in its activities, and to

disseminate information to, representatives of ministries of finance and other ministries concerned with economic management, in order to make them more receptive to the integrated view of resource mobilization and policy reform that the Expert Group has developed in its four meetings.

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PREPARATIONS FOR THE SPECIAL SESSION OF THE GENERAL ASSEMBLY FOR THE PURPOSE OF AN OVERALL REVIEW AND APPRAISAL OF THE IMPLEMENTATION OF AGENDA 21

Letter dated 18 February 1997 from the Permanent Representatives of Brazil and Norway to the United Nations addressed to the Secretary-General

We hereby have the honour to submit a letter from Mr. Gustavo Krause Goncalves Sobrinho, Minister of Environment, Water Resource and the Amazon, Brazil, and Mr. Thorbjørn Berntsen, Minister of Environment, Norway, concerning a symposium on sustainable production and consumption patterns held in Brasilia from 25 to 28 November 1996 (see annex).

In the letter the two ministers request the attached document** from the symposium to be distributed to the upcoming session of the Ad Hoc Inter-sessional Working Group of the Commission on Sustainable Development and to the Commission at its fifth session.

(Signed) Celso Luiz Nunes AMORIM
Ambassador
Permanent Representative of Brazil
to the United Nations

(Signed) Hans Jacob BIØRN LIAN
Ambassador
Permanent Representative of Norway
to the United Nations

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** The conclusions of the Chairperson of the symposium (see appendix) are circulated in the language of submission only.

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Annex

Letter dated 20 December 1996 from the Minister of Environment, Water Resources and the Amazon of Brazil and the Minister of Environment of Norway to the Secretary-General

As the world prepares for the upcoming session of the Commission on Sustainable Development and the special session of the General Assembly, the Governments of Brazil and Norway took the initiative to host and organize a dialogue to identify the key elements for a shared North-South vision on the issue of changing consumption and production patterns. The workshop was held in Brasilia from 15 to 18 November 1996. Participants included representatives from several Latin American countries, Europe, and North America, representing Governments, international organizations, non-governmental organizations, business and industry, the academic community and local authorities.

We are pleased to, hereby, submit to you the results of this meeting as a contribution for the international debate on this issue.

The meeting concluded among other things that:

It is now clear that the Agenda 21, chapter 4, Changing consumption and production patterns, is an issue that has the common interest of and deserves additional international cooperation between industrialized and developing countries.

Exchanging experiences on national policy development and implementation is a determining factor in achieving progress in making patterns of consumption and production more sustainable. The bilateral cooperation between countries such as Norway and Brazil has proven to be instrumental in bringing the debate a step further. It was also recognized and reaffirmed that industrialized countries have a special responsibility in taking the lead. But both developed and developing countries can learn from each other based on respect for each other's cultural diversity.

In the spirit of achieving sustainable development, discussions in Brasilia illustrate that the current debate should have broader scope, going beyond technological and policy change to incorporate the human dimension both in terms of better understanding needs and the values that underpin sustainable livelihoods.

In addition, it is more clear than ever that in view of continuing global environmental degradation and the development needs of developing countries, the United Nations system, in particular the bodies dealing with sustainable development, need strengthening.

We can assure you that the Governments of Norway and Brazil will continue to support and contribute to the work of the United Nations in this regard.

Some of the conclusions of the meeting suggest options for the process and contents for future work and for discussions at the General Assembly special

session. Hereby, we would like to request you to distribute the attached document to the participants of the Inter-sessional Working Group meeting and the fifth session of the Commission on Sustainable Development.

Meanwhile, we look forward to the upcoming deliberations of the Commission on Sustainable Development and the special session in June 1997, and hope that the results of the Brasilia meeting provide a useful input to that process.

(Signed) Gustavo Krause GONCALVES SOBRINHO
Minister of Environment,
Water Resources
and the Amazon, Brazil

(Signed) Thorbjørn BERNTSEN
Minister of Environment,
Norway

APPENDIX

A shared vision - conclusions from the Chairperson of the Brasilia Workshop on Sustainable Production and Consumption Patterns and Policies, held from 25 to 28 November 1996

1. The Brasilia Workshop was organized by the Ministry of Environment, Water Resources and the Amazon-Brazil in collaboration with the Ministry of Environment-Norway. It was chaired by Ms. Aspasia Camargo, Deputy Minister at the Brazilian Environment Ministry, and co-chaired by Mr. Oddmund Graham, Ambassador for the Environment at the Norwegian Environment Ministry. As well as participants from Brazil and Norway, the meeting brought together representatives of Governments from other Latin American countries, including Chile, Cuba, and Paraguay, as well as international institutions such as the Commission on Sustainable Development and the OECD, and representatives of major groups, including the World Business Council for Sustainable Development and the Earth Council. The Brasilia Workshop built on the Agenda 21, chapter 4 - Changing Consumption and Production Patterns and a series of meetings since UNCED. We reached a number of conclusions which could provide input for the review of Agenda 21 in 1997.

2. For the last two centuries, we have been living with the trinity of liberty, equality and fraternity. As we move into the twenty-first century, we need to take as our inspiration the four values of liberty, equality, fraternity and sustainability.

3. We recognize that current production and consumption patterns are causing serious environmental degradation and social marginalization. Most of the world's people are unable to meet their needs and improve their quality of life. If we integrate them into the market economy only using existing mechanisms then we would suffer unbearable environmental stress. Providing the goods and services required to reduce poverty will require lifestyle change among the affluent in North and South.

4. We found that there is a universal interest in a common agenda among all countries to pursue sustainability. The industrialized countries have a special responsibility and are embarking on change and this can have an important demonstration effect for the developing world. But new ways of meeting needs while respecting nature have a special place in developing countries where the urgency to increase consumption is greatest. Action for sustainable production and consumption is not a one-way street, and both North and South can learn from each other.

5. The deep-seated nature of many of the issues requires new forms of international cooperation between Governments and other stakeholders on questions of resource pricing, technology, trade, environmental regulation and management systems. We must make sure that the drive for environmental sustainability does not become an instrument of increasing North-South inequalities. Protectionist measures should not be used in the name of the environment. Rather attention should be focused on opening up opportunities for

developing countries. Furthermore, policies and regulations to change consumption in the industrialized world should be accompanied by dialogue with developing countries and support to ease the transition process.

6. Globalization needs to be underpinned by an ethic of sustainability, based on human rights and the values of freedom, democracy and social equity. It is impossible and makes no sense to change consumption patterns simply through technological change or policy plans. New cultural reference points for success are needed to replace the notion that increasing material consumption equates with progress. Concern for future generations needs to be incorporated into today's decisions.

7. The role of advertising and the media is critical here, and the international community should apply the resources of the media to induce behaviour changes to avoid waste, inefficient resource use and conspicuous consumption. Positive messages of how individuals can live in a sustainable manner are required in place of advertising encouraging ever-rising consumption or stories of environmental disasters. Development models based on overly individual and material consumption should give way to a market economy encouraging lifestyles where spiritual, cultural and community aspirations have a greater role.

8. The Brasilia Workshop focused on the key resources for consumption related to basic human needs, and the main resources for production and the economy in general, namely energy, forests, land and water. At all levels, action to achieve sustainable management of natural resources, and thereby sustainable production and consumption, is needed. We need to respect environmental and resource limits and recognize that fair use of resources will increase human well-being and reduce social conflicts. To achieve this, participation and democratic accountability is crucial.

9. The Workshop discussed a range of positive examples and ideas of success. A broader strategy is now needed for Governments, business and civil society, so that they can carry out their critical tasks and build new partnerships based on trust.

For Governments, the challenge is to change the rules of the game to stimulate social and technological innovation.

- The greening of Government means integrating sustainable development into the heart of government decision-making. It is particularly important to ensure that macroeconomic policies for liberalization and deregulation promote environmental improvement.

- Environmental tax reform can remove distorted prices, stimulate development, encourage employment and reduce pollution and resource use. Environmentally damaging subsidies should be removed in a socially responsible way. Questions of international competition mean that more should be done to coordinate efforts to internalize environmental costs into market prices.

- Governments are also major consumers and can help shape markets through better understanding of their use of goods and services and incorporating environmental criteria into procurement policies.

For business, the goal is to find new ways of satisfying customer requirements with the lowest resource use and environmental costs, and thereby guarantee competitive advantage which will increase as market conditions change to better reflect environmental costs.

- Cleaner production and eco-efficiency offer promising strategies for continued economic development at reduced environmental costs. But eco-efficiency needs to be accompanied by targets and cannot be an alternative to reforming unsustainable lifestyles.

For NGOs, the focus is to:

- develop and present documentation based on the solidarity values found among NGOs worldwide.

- suggest political action at all levels.

- campaign to raise awareness on sustainable "consumer values" and provide tools for changing lifestyles.

- educate citizens in their rights to participation in decision-making on sustainable production and consumption issues.

Finally, citizens need to exercise their consumer rights and responsibilities.

10. Finance, technology and information are powerful levers for achieving change.

- Time is running out for industrialized countries to meet the commitments made at Rio to increase development assistance. But even if these commitments were achieved, additional action would be required to reorient policy frameworks and financial markets to drive sustainable production and consumption. The imagination and skills of the financial sectors need to be mobilized in the cause of sustainable development.

- Banking, insurance and other financial institutions have an essential role in promoting sustainable development since they influence the entire framework in which investment and business activity take place.

- Innovative financial mechanisms should also be explored, such as charges on fuel for international air transport and charges on speculation in international financial flows, to reinforce global funds.

- The organizational dimension is critical to the successful spread of cleaner technologies: "software" is at least as important as

"hardware". Investment should be focused on building the human skills and knowledge which will provide the basis for the generation and adaptation of technology.

- Innovation is important to stimulate more sustainable management and efficient use of natural resources, but needs to be balanced with measures to overcome the tendency towards obsolescence in both products and production technology, which has especially high costs for developing countries. Policy and research efforts should focus on improving product durability and the ability to upgrade technologies.

- Information strategies should focus on raising general "environmental literacy" in government, business and the public at large, and then targeting information at the point of decision.

11. In conclusion, the Brasilia Workshop found that:

- there is a commonality of interests between North and South for achieving sustainable development. Sustainability has humanity at its centre, respecting the world's cultural diversity.

- the scale of the challenge means that institutional reforms are required at the United Nations to strengthen the work on sustainable development and to build UNEP into a robust and effective global environmental organization.

- bilateral initiatives for sustainable development, such as the Brasilia Workshop, offer practical ways of bridging different perspectives of North and South.

12. Political emphasis should be given to this shared vision for sustainable production and consumption in national Government, in regional forums and at international meetings such a Rio plus 5, the fifth session of the Commission on Sustainable Development and the special session of the General Assembly.